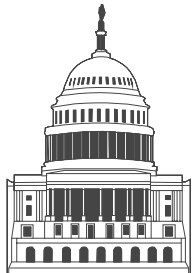


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**2003-04
BUDGET**

"It's plain wrong to force hardworking Californians to pick up the tab for the bad choices made by the big spenders in Sacramento. California businesses are not able to sustain themselves and prosper under the weight of punishing anti-business laws and regulations. Our goal should be job creation. The Governor's idea of heaping \$8 billion in new taxes on the people is a prescription for doom."

-Chuck Poochigian

JANUARY 10, 2003

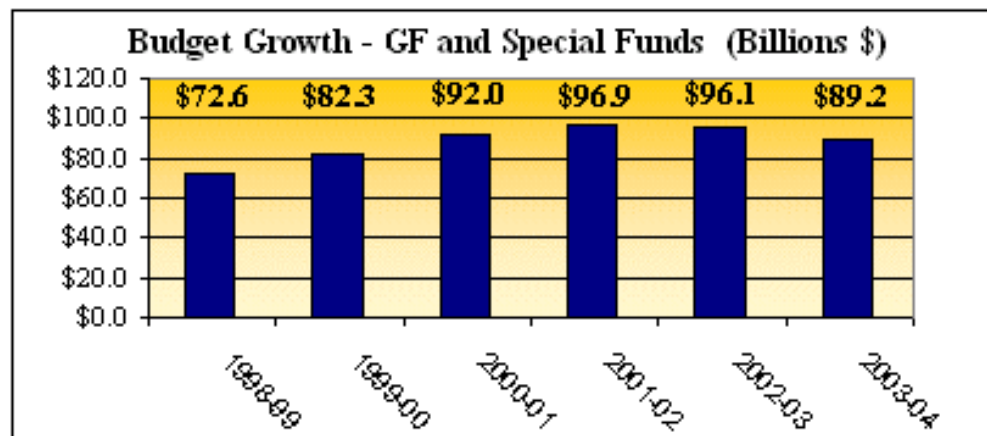
Senator Charles S. Poochigian



Capitol Update

GOVERNOR RELEASES PROPOSED 2003-04 BUDGET

The Governor released his proposed spending plan for the budget year beginning in July 2003. The \$96 billion proposal includes tax increases, fund shifts, local government realignment, and program reductions. However, spending is still 23% more than it was just five years ago.



TAX INCREASES

The proposed budget includes hefty tax increases totaling more than \$8 billion including a personal income tax increase (\$2.6 billion), a sales tax increase (\$4.6 billion), and a \$1.10 per pack increase in the cigarette tax (\$1.1 billion).

The personal income tax increases would create a new 10% bracket for single filers with incomes greater than \$130,000 and joint filers over \$260,000 and an 11% bracket for single filers with incomes greater than \$260,000 and joint filers over \$520,000. While the personal income tax increase is purported by the Governor to impose additional tax brackets on "upper income earners," it pummels the thousands of small business men and women who technically fall into this category for tax purposes, yet do not necessarily "take home" large incomes. In fact 87,000 small business filers and 7,500 farm filers would be swept up in this tax increase proposal. Moreover, it is bad tax policy to reduce savings and investment by the very people whose economic activity leads to job creation.

Most notably, there is no effort to make these tax increase temporary. Instead they are intended to be permanent and will last well after the state recovers from its fiscal crisis.

Manufacturers' Investment Credit (MIC) – While the Governor has indicated his support for ensuring the MIC does not expire, he is simultaneously proposing to reduce the number of entities that may qualify, thereby raising taxes by \$50 million annually.

Local Revenue Increases. The Governor's proposal includes providing "reasonable revenue-raising tools to local government," which may have implications for Proposition 13.

LOCAL GOVERNMENT TO TAKE A \$6 BILLION HIT

Vehicle License Fee Backfill Elimination. The Governor proposes to immediately eliminate the state monies provided to local governments for the loss of revenue as a result of car tax relief. The proposal would shift \$1.3 billion in the current year (beginning in February) and \$2.3 billion in the budget year (and ongoing thereafter).

Realignment – Shifting State Duties to Counties. The Governor proposed to shift massive responsibilities for numerous health and welfare programs from the state to counties and trial courts. The proposal would allocate the \$8.3 billion in tax increases to counties to pay for the new duties. Time will tell whether "realignment" will be a net additional cost to counties. Specifically, the proposal shifts:

- ◆ Mental Health and Substance Abuse – \$306 million
- ◆ Children and Youth – \$2.307 billion
- ◆ Healthy Communities – \$2.671 billion
- ◆ Long-term Care – \$2.571 billion
- ◆ Court Security -- \$300 million

Redevelopment Funds. The Governor proposes to permanently shift the school district share of property tax revenue resulting from growth in assessed value in redevelopment areas to schools. The shift would begin at \$250 million in the first year and grow to \$1 billion once fully implemented.

Williamson Act. The Governor proposes to permanently eliminate Williamson Act subvention funds to local governments. Such elimination will effectively eliminate this valuable tool which assists rural communities.

FEE INCREASES

Mill Tax – The Governor proposes to increase the mill tax by \$7.5 billion, eliminating all General Fund support for the program. The Governor calls it "polluter pays" and would ensure that the agricultural industry bears the entire cost of this program.

Water Resources Control Board Permits – The budget includes a \$13.6 million fee increase to support 100 percent of the Board's core programs.

Stationary Source – The Governor calls for an increase of \$10 million in Air Resource Board fees.

Court Processing Fees – The Governor proposes additional fees that compound other such fee increases in recent years for access to our judicial system:

- \$20 per court filing – new security fee (total increase of \$34 million)
- \$10 per court filing – increase in the trial motion fee (total increase of \$1.2 million)

Tribal Compact Renegotiation Fee – The Governor proposes to impose \$1.5 billion in fees on Indian tribes during this year's renegotiations of tribal compacts. It is not clear what the Governor intends to provide in return for such fees.

WORKERS' COMPENSATION PROGRAM

The management of the state's workers' compensation system occurs through the Department of Industrial Relations (DIR). Despite massive insurance premium increases in recent months, the Governor proposes to mandate \$73.7 million in additional employer fees to pay for the massive and unwieldy worker's compensation bureaucracy at DIR.

PUBLIC SAFETY AND LAW ENFORCEMENT

Rural Crime Prevention Program. The Governor proposes to reduce by \$3.4 million a number of local grant programs, including a \$200,000 reduction to the Rural Crime Prevention Program.

COPS and High Technology Grants. The Governor proposes to maintain full funding for both of these public safety programs.

War on Methamphetamine. The budget includes full funding (\$15 million) for the War on Methamphetamine.

TRANSPORTATION

The Governor proposes to cut transportation funding by \$1.8 billion primarily from:

- ◆ Suspension of a \$1 billion transfer authorized under Proposition 42;
- ◆ Elimination of \$90 million in apportionment funding for local streets and roads; and
- ◆ Forgiveness of \$500 million in loans to the General Fund.

In addition, \$100 million is proposed to be raided through the "reversion" of \$100 million from the Traffic Congestion Relief Fund.

MEDI-CAL

Provider Rates. The Governor proposes to reduce provider rates by 5-percent. This \$479 million proposal is *in addition* to the 10-percent increase proposed by the Governor in December.

K-12 EDUCATION

The Governor proposes total K-12 funding from all sources to be \$53 billion, accounting for 43% of the state budget. He proposes that Prop. 98 per-pupil spending be \$6,708, indicating a decrease in per-pupil spending of \$359 from the final 2002 budget.

The Governor's proposal includes \$250 million for revenue limit equalization.

The Governor proposes to reduce specified categorical programs by \$1.086 billion over the current and budget years. The Administration proposes to achieve these reductions by the consolidation of 64 categoricals into one \$5.1 billion block grant.

HIGHER EDUCATION

The Governor is proposing an approximate overall 10% reduction in General Fund spending.

Community Colleges – The Governor proposes to increase per unit fees from \$11 to \$24, generating \$149 million.